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PIERCY BOWLER TAYLOR & KERN

Certified Public Accountants • Business Advisors

# BASIC FINANCIAL STATEMENTS

## University Medical Center of Southern Nevada

## Years Ended June 30, 2007 and 2006

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University Medical Center of Southern Nevada

Basic Financial Statements

## Contents

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# Independent Auditors' Report

To the Board of Trustees of University Medical Center of Southern Nevada
Las Vegas, Nevada

We have audited the accompanying basic financial statements of University Medical Center of Southern Nevada (the Hospital), a component unit of Clark County, Nevada, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. The basic financial statements of the Hospital as of and for the year ended June 30, 2006, were audited by other auditors whose report dated January 5, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2007, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 10, 2007, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Piercy Bowler Taylor & Kern

December 10, 2007

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of University Medical Center of Southern Nevada (the Hospital) presents background information and our analysis of the Hospital's financial performance during the fiscal years that ended on June 30, 2007 and 2006, which management believes is relevant for an understanding of our financial condition and results of operations. This discussion should be read in conjunction with the financial statements and the related notes included in this report. Financial information relating to 2005 is not covered by the auditors' report.

## FINANCIAL HIGHLIGHTS

- Overall activity at the Hospital as measured by patient days adjusted for outpatient services were 242,655 in 2007 or a decrease of 1.8% from 247,020 in 2006. Adjusted patient days increased by 3.1% in 2006 from 239,420 in 2005. The reduction in 2007 was due primarily to a decrease in inpatient patient days of 2.1%

- The Hospital experienced a loss from operations of $56.3 million due to continued high levels of care for uninsured and underinsured patients and an increase in operating expenses. In 2006, the Hospital experienced an operating loss of $34.3 million due to continued high levels of care for uninsured and underinsured patients. This was an increase from the $14.2 million loss from 2005.

- During fiscal 2007, the Hospital's total operating revenues increased by 5.4% to $502.6 million due to a rate increase in January 2007 of approximately 20% as well as increased outpatient volumes, primarily in the care centers, including a small increase in insured patients, a small rate increase in Medicare, Medicaid, and managed care contracts which were offset by a decrease in Clark County Social Services accepted claims of $7.7 million. During fiscal 2006, the Hospital's total operating revenues increased by 6.8% to $476.7 million due to increased patient volumes, including a small increase in insured patients, as well as small rate increases in Medicare, Medicaid, and managed care contracts.

- Operating expenses increased by 9.3% to $558.9 million in fiscal 2007 as compared to fiscal 2006. Operating expenses increased by 11% to $510.9 million in fiscal 2006 as compared to fiscal 2005. Salaries increased by 9.4% but were offset by a 58.2% decrease in contract personnel. Other areas of increase were supplies (15.4%), professional fees (13.9%), purchased services (10.8) and utilities (12.9%).

- During fiscal 2007 and 2006, the Hospital invested $7.8 million and $8.4 million, respectively, in the following capital acquisitions:
  - Computer equipment
  - Barcode software
  - Leasehold improvements for the Human Resources Department
  - Patient beds and equipment for clinical areas

In addition, the hospital completed Phase I of the northeast tower and transferred $51.3 million to building and $2.8 million to equipment and furnishings from construction-in-progress. The funding for these projects came from operations, grants, and from funds reserved for capital acquisitions.

The Hospital also invested $22.1 million and $27.6 million, respectively, in 2007 and 2006 in construction of the northeast tower. Phase I was technically complete in 2007, Phases II-IV are scheduled to be complete by the end of 2008.

**REQUIRED FINANCIAL STATEMENTS**

The basic financial statements report information about the Hospital using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Hospital's activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the Hospital's operations and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The statements of cash flows provide information about the Hospital's cash from operating, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**FINANCIAL ANALYSIS OF THE HOSPITAL**

The balance sheets and the statements of revenues, expenses, and changes in net assets report information about the Hospital's resources, obligations and activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating; however, other nonfinancial factors such as changes in economic conditions, population growth (including uninsured and underinsured), and new or changed government legislation should also be considered.

## Net Assets

A summary of the Hospital's balance sheets for the years ended June 30, 2007, 2006 and 2005 is presented in Table 1 below:

**Table 1**
**Condensed Statements of Net Assets**
**(In Thousands)**

| | June 30 | | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| Current assets | $185,501 | $ 193,203 | $ 186,794 |
| Restricted and other assets | 37,746 | 59,601 | 87,716 |
| Capital assets | 161,337 | 145,701 | 128,253 |
| Total assets | 384,584 | 398,505 | 402,763 |
| | | | |
| Current Liabilities | 123,057 | 138,062 | 119,906 |
| Long-term debt outstanding (a) | 97,401 | 102,355 | 107,660 |
| Other liabilities | 24,344 | 26,511 | 23,371 |
| Total liabilities | 244,802 | 266,928 | 250,937 |
| Invested in capital assets, net of related debt | 79,767 | 75,871 | 73,457 |
| Restricted | 3,868 | 2,993 | 1,537 |
| Unrestricted | 56,147 | 52,713 | 76,832 |
| Total net assets | 139,782 | 131,577 | 151,826 |
| Total liabilities and net assets | $384,584 | $ 398,505 | $ 402,763 |

(a) includes current portion of $5,254, $5,022 and $5,268, respectively.

In fiscal 2007, net assets increased $8.2 million to $139.8 million, up from $131.6 million in fiscal 2006, primarily due to the contribution from Clark County in excess of the operating loss. In fiscal year 2006, net assets decreased $20.2 million to $131.6 million. This decrease in net assets is approximately equal to the loss before capital contributions.

### Summary of Revenues, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for the years ended June 30, 2007, 2006 and 2005.

**Table 2**
**Condensed Statements of Revenues, Expenses, and Changes in Net Assets**
**(In Thousands)**

| | Year Ended June 30 | | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| Net patient revenues | $479,697 | $ 457,244 | $ 430,003 |
| Other operating revenues | 22,919 | 19,431 | 16,146 |
| Total operating revenues | 502,616 | 476,675 | 446,149 |
| Maintenance and operation expenses | 546,070 | 497,396 | 444,301 |
| Depreciation and amortization | 12,832 | 13,525 | 13,206 |
| Total operating expenses | 558,902 | 510,921 | 457,507 |
| Operating deficit | (56,286) | (34,246) | (11,358) |
| Nonoperating revenues | 64,491 | 13,998 | 19,158 |
| Income (loss) before capital contributions | 8,205 | (20,248) | 7,800 |
| Change in net assets | 8,205 | (20,248) | 7,800 |
| Total net assets - beginning of year | 131,577 | 151,826 | 144,026 |
| Total net assets - end of year | $139,782 | $ 131,578 | $ 151,826 |

During fiscal 2007, 2006 and 2005, the Hospital derived approximately 88.0%, 96.0%, and 96.0%, respectively, of its total revenues from operating revenues. Operating revenues include, among other items, revenues from the Medicare and Medicaid programs, the Clark County Social Services program, patients, or their third-party carriers who pay for their care in the Hospital's facilities, and grant revenue. Table 3 presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2007, 2006 and 2005.

**Table 3**
**Payor Mix by Percentage**

| | Year Ended June 30 | | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| Medicare | 19 % | 20 % | 19 % |
| Medicaid, Clark County, self-pay | 47 | 48 | 45 |
| Commercial, HMO, PPO | 27 | 25 | 29 |
| Other | 6 | 7 | 7 |
| Total patient revenue | 100 % | 100 % | 100 % |

During fiscal 2007, 2006 and 2005, the Hospital derived less than 1% of its total revenues from interest on its capital acquisition and malpractice funds. The Hospital's cash is deposited with the Clark County Treasurer and funds in the custody of the Treasurer are invested as a pool. Other nonoperating revenues in fiscal 2007 include a $65.6 million contribution from Clark County used primarily to defray operating, capital and debt service costs.

## OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the Hospital's statements of revenues, expenses, and changes in net assets for the fiscal years ended June 30, 2007 and 2006:

In fiscal 2007, overall activity at the Hospital as measured by patient days adjusted for outpatient services decreased by 1.8% to 242,655 compared to 247,020 in fiscal 2006. This decrease was due primarily to a decrease in patient days offset by an increase in emergency room revenues. In fiscal 2006, overall activity increased by 3.1% due to an increase in patient days and care center revenues.

In fiscal 2007, the Hospital had patient days and discharges of 177,051 and 30,653, respectively. This is a decrease of 2.1% and 0.5%, respectively, as compared to fiscal 2006. The decrease in patient days is due to a decrease in the average length of stay from 5.9 in 2006 to 5.8 in 2007. In fiscal 2006, the Hospital had patient days and discharges of 180,816 and 30,822, respectively. This was an increase of 2.7% and 1.0%, respectively, as compared to fiscal 2005. Outpatient and emergency visits were 665,544, or 4.2% above 2006 levels of 638,540. The increase in outpatient volume occurred primarily due to an increase in primary care registrations of 10.9% and other clinic registrations of 12.3%.

In fiscal 2007, net patient service revenue increased $22.5 million due to a rate increase of approximately 20%, higher volumes and contractual increases in reimbursement rates. This increase is offset by a slight decline in the State Medicaid plan's upper payment limit reimbursement. Compared to fiscal year 2005, net patient service revenue in 2006 increased $24.4 million as a result of contractual increases in reimbursement rates and higher Medicaid upper payment limit reimbursement and in addition the Hospital sold accounts receivable that had previously been written off to bad debt and recorded revenue of $6.6 million.

Excluded from net patient service revenue are charges foregone for charity care patient services. Based on established rates, gross charges of $371.7 million were foregone during fiscal 2007, a 92% increase over fiscal 2006. Likewise, in fiscal year 2006, gross charges of $193.5 million were foregone, a 7.7 % decrease over fiscal year 2005.

In fiscal 2007, total operating expenses increased by $47.9 million or 9.4%. The increase in operating expenses was due to an increase in salaries, supplies, purchased service, and professional fees. In fiscal 2006, operating expenses increased by $50.5 million or 11%.

In fiscal 2007, employee compensation and benefits increased $21.1 million or 7.2% due to increased FTE (full time equivalent), market salary adjustments in some hard to fill positions and some position adjustments. The number of paid FTE increased by 5.9% to 3,948 in 2007 from 3,727 in 2006. A cost of living increase of 4.0% was granted in July of 2007. In fiscal 2006, employee compensation and benefits increased $27.1 million or 10.2%.

In fiscal 2007, the cost of supplies increased by 15.4% due primarily to the increased cost and usage of prosthetics and implantables (13%), other medical supplies (12.3%), pharmaceuticals (11.6%), and an increase in other non patient supplies (25.4%). In fiscal 2006, the cost of supplies increased by 6.9% due primarily to the increase in pharmaceutical and implantable costs.

Professional fees for contracted physician services to provide coverage for emergency room and trauma services, in addition to providing coverage for indigent patients, increased 13.9% during fiscal 2007. In 2007, the Hospital entered into new contracts to provide additional cardiology and general surgery services. In fiscal 2006, these professional fees increased by 33.9%.

Purchased service expenses increased by 10.8% in fiscal 2007, primarily due to an increase in the cost for software and maintenance contracts and for management fees for environmental services, food services, and materials management. Purchased service expenses decreased 6.8% in fiscal 2006, primarily due to reclassification of professional fees for collection services.
Other expense increased 14.5% due to increased cost of professional liability and other insurance of 33% and an increase of 14% in overhead costs mainly as a result of additional overhead for SAP, the Hospital's accounting software.

Non-operating revenue consists of rental income, interest income, and contributions from Clark County. The County contributed $65.6 million to the Hospital in fiscal 2007 to defray operating, capital and debt service costs. During fiscal 2006, Clark County contributed $13.5 million to the Hospital, which was used primarily to defray capital and debt service costs.

Net assets increased $8.2 million to $139.7 million in fiscal 2007 primarily due to an increase in contributions from County offset by increases in operating costs and expenses. In fiscal 2006, net assets decreased $20.2 million to $131.6 million. The decrease in net assets in 2006 was approximately equal to the loss before capital contributions for the year.

The focus of management in the near term is to develop a multi-year plan that will emphasize revenue generation, cost control, fiscal discipline, capital requirements, and financing in support of net asset stability.

## CAPITAL ASSETS

During fiscal 2007 and 2006, the Hospital invested $28.6 million and $35.9 million, respectively, in a broad range of capital assets included in Table 4 below.

**Table 4**
**Capital Assets**
**(In Thousands)**

| | | June 30 | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| Land | $ 10,573 | $ 10,573 | $ 10,221 |
| Land improvements | 5,650 | 5,650 | 4,686 |
| Buildings and building improvements | 165,656 | 115,581 | 114,801 |
| Equipment | 95,161 | 85,704 | 82,963 |
| Furnitures and Fixtures | 975 | | |
| Subtotal | 278,015 | 217,508 | 212,671 |
| Less: accumulated depreciation | (122,081) | (109,249) | (95,715) |
| Construction-in-progress | 5,403 | 37,442 | 11,297 |
| Property, plant, and equipment, net | $161,338 | $145,701 | $128,253 |

Gross capital assets increased in 2007 primarily due to the capitalization of Phase I of the northeast tower project, which began in November 2004.

In Table 5, the Hospital's fiscal year 2008 capital budget projects spending up to $15.6 million for capital projects of which $9.6 million is for the completion of construction on the northeast tower. These projects will be financed from operations, grants, capital acquisition funds, and bonds.

**Table 5**
**Capital Budget**
**Fiscal Year 2008**
**(In Millions)**

| | |
|---|---|
| Northeast tower construction | $ 9.6 |
| Replacement equipment | 6.0 |
| Total | $ 15.6 |

## LONG-TERM DEBT

At June 30, 2007 and 2006, the Hospital had \$97.4 million and \$102.4 million, respectively, in long-term debt, including the current portion thereof. This represented a decrease of \$5.0 million and \$5.3 million, respectively, from the outstanding balances at June 30, 2006 and 2005, and was the amount of principal payments on outstanding debt for fiscal 2007 and 2006. Total outstanding debt represents 41.4% and 38.3% of the Hospital's total liabilities as of June 30, 2007 and 2006, respectively. There was one new debt issue in May 2007 to refinance a portion of the 2003 bond series at a lower rate. This resulted in a loss on defeasance of \$0.7 million. The loss on defeasance is being amortized over 18 years.

## CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, University Medical Center of Southern Nevada, 1800 West Charleston Blvd., Las Vegas, Nevada 89102.

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

# Balance Sheets

| | June 30 | |
|---|---|---|
| | **2007** | **2006** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 1,477,122** | $ 3,695,506 |
| Assets limited as to use, current portion | **4,633,839** | 2,919,067 |
| Patients' receivables, net of allowance for uncollectible accounts of $34,420,996 and $36,454,000 | **151,320,047** | 160,056,692 |
| Other receivables, net | **18,189,735** | 17,187,438 |
| Inventories | **9,069,183** | 8,684,862 |
| Prepaid expenses and other | **811,159** | 659,779 |
| Total current assets | **185,501,085** | 193,203,344 |
| | | |
| Assets limited as to use, net of current portion: | | |
| Contributor or grantor restricted: | | |
| Cash and cash equivalents | **2,160,185** | 1,681,119 |
| Grants receivable | **2,213,484** | 1,507,223 |
| Internally designated cash and cash equivalents | **27,334,400** | 44,434,318 |
| Securities lending | **10,204,382** | 14,333,029 |
| | **41,912,451** | 61,955,689 |
| Less amount required to meet current obligations | **(4,633,839)** | (2,919,067) |
| Total assets limited as to use, net of current portion | **37,278,612** | 59,036,622 |
| | | |
| Other assets: | | |
| Land | **10,573,113** | 10,573,113 |
| Depreciable property and equipment, net | **150,764,058** | 135,127,720 |
| Deferred bond and debt issue costs (less accumulated amortization of $945,266 and $889,253) | **467,067** | 564,141 |
| Total assets | **$ 384,583,935** | $ 398,504,940 |

(Continued)

# University Medical Center of Southern Nevada
## A Component Unit of Clark County, Nevada

## Balance Sheets (continued)

| | June 30 | |
|---|---|---|
| | **2007** | **2006** |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable | **$ 69,373,535** | $ 86,819,214 |
| Accrued compensation and benefits | **34,214,180** | 27,637,800 |
| Other accrued expenses | **1,547,629** | 1,912,891 |
| Current portion of long-term debt | **5,253,795** | 5,022,458 |
| Due to related party | **5,076,591** | 4,979,348 |
| Current portion of self-insurance | **2,640,433** | 2,379,373 |
| Securities lending | **10,204,382** | 14,333,029 |
| Total current liabilities | **128,310,546** | 143,084,113 |
| | | |
| Long-term portion of self-insured liability | **4,832,567** | 4,917,193 |
| Long-term debt, net of current portion | **92,146,893** | 97,332,691 |
| Due to related party | **19,511,795** | 21,593,938 |
| Total liabilities | **244,801,801** | 266,927,935 |
| | | |
| Commitments and contingencies (Note 12) | | |
| | | |
| Net assets: | | |
| Invested in capital assets, net of related debt | **79,767,361** | 75,871,359 |
| Restricted net assets: | | |
| Hospital and administrative programs | **2,383,885** | 2,219,662 |
| Donations, various programs | **758,864** | 360,278 |
| Research programs | **506,303** | 258,488 |
| Educational programs | **218,437** | 154,086 |
| Total restricted net assets | **3,867,489** | 2,992,514 |
| Unrestricted net assets | **56,147,284** | 52,713,132 |
| Total net assets | **139,782,134** | 131,577,005 |
| Total liabilities and net assets | **$ 384,583,935** | $ 398,504,940 |

*See accompanying notes.*

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

Statements of Revenues, Expenses, and Changes in Net Assets

| | Years Ended June 30 | |
|---|---|---|
| | **2007** | **2006** |
| Operating revenues: | | |
| Net patient revenues (net of provisions of bad debts of $42,594,073 and $48,457,008) | **$ 479,697,464** | $ 457,243,624 |
| Other operating revenues | **22,919,086** | 19,430,699 |
| Total operating revenues | **502,616,550** | 476,674,323 |
| Operating expenses: | | |
| Nursing and other professional services | **413,288,840** | 372,563,647 |
| Administrative and fiscal services | **78,013,383** | 73,927,053 |
| General services | **54,768,924** | 50,906,088 |
| Depreciation and amortization | **12,831,539** | 13,524,773 |
| Total operating expenses | **558,902,686** | 510,921,562 |
| Loss from operations | **(56,286,137)** | (34,247,239) |
| Nonoperating revenues (expenses): | | |
| Contributions from Clark County | **65,646,853** | 13,500,000 |
| Interest income | **2,345,868** | 1,136,159 |
| Rental income | **394,008** | 414,263 |
| Interest expense | **(3,895,463)** | (1,052,357) |
| Total nonoperating revenues (expenses) | **64,491,266** | 13,998,065 |
| Change in net assets | **8,205,129** | (20,249,174) |
| Total net assets, beginning of year | **131,577,005** | 151,826,179 |
| Total net assets, end of year | **$ 139,782,134** | $ 131,577,005 |

*See accompanying notes.*

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

Statements of Cash Flows

| | Years Ended June 30 | |
|---|---|---|
| | **2007** | **2006** |
| **Cash flows from operating activities** | | |
| Cash received from patients and third-party payors | **$ 488,434,108** | $ 447,606,646 |
| Cash payments to suppliers for goods and services | **(263,601,071)** | (188,499,894) |
| Cash payments to employees for services and benefits | **(301,237,721)** | (279,455,318) |
| Other operating receipts | **22,919,086** | 19,425,644 |
| Net cash used in operating activities | **(53,485,598)** | (922,922) |
| **Cash flows from noncapital financing activities** | | |
| Contribution from Clark County | **65,646,853** | 13,500,000 |
| Proceeds from Clark County loan | **9,000,000** | 20,000,000 |
| Repayment of Clark County loan | **(10,000,000)** | (20,000,000) |
| Net cash provided by noncapital financing activities | **64,646,853** | 13,500,000 |
| **Cash flows from capital and related financing activities** | | |
| Proceeds from debt issuance | **17,163,936** | 47,990,929 |
| Repayments of bonds | **(17,205,000)** | (51,425,000) |
| Principal paid on other long-term debt | **(5,022,459)** | (2,045,747) |
| Purchase of property and equipment | **(22,422,870)** | (25,743,905) |
| Interest paid | **(5,680,882)** | (2,775,237) |
| Other | **394,007** | 409,208 |
| Net cash used in capital and related financing activities | **(32,773,268)** | (33,589,752) |
| **Cash flows from investing activities** | | |
| Interest received | **2,772,777** | 3,077,962 |
| Decrease in cash and cash equivalents | **(18,839,236)** | (17,934,712) |
| Cash and cash equivalents, beginning of year | **49,810,943** | 67,745,655 |
| Cash and cash equivalents, end of year | **$ 30,971,707** | $ 49,810,943 |
| Unrestricted | **$ 1,477,122** | $ 3,695,506 |
| Contributor or grantor restricted | **2,160,185** | 1,681,119 |
| Internally designated | **27,334,400** | 44,434,318 |
| Total cash and cash equivalents | **$ 30,971,707** | $ 49,810,943 |

(Continued)

University Medical Center of Southern Nevada
A Component Unit of Clark County, Nevada

Statements of Cash Flows (continued)

| | Years Ended June 30 2007 | 2006 |
|---|---|---|
| **Reconciliation of loss from operations to net cash used for operating activities** | | |
| Loss from operations | **$ (56,286,137)** | $ (34,247,239) |
| Adjustments to reconcile loss from operations to net cash used in operating activities: | | |
| Depreciation and amortization | **12,831,539** | 13,524,773 |
| Provision for uncollectible accounts | **42,594,073** | 48,457,008 |
| Changes in operating assets and liabilities: | | |
| Increase in patient receivables | **(33,857,428)** | (55,295,599) |
| Increase in inventories | **(384,321)** | (1,268,288) |
| Decrease (increase) in prepaids and other current assets | **(1,859,938)** | 4,226,687 |
| Increase (decrease) in accounts payable | **(15,714,920)** | 18,013,178 |
| Increase (decrease) in self-insured liability | **176,434** | (969,878) |
| Increase (decrease) in due to related party | **(984,900)** | 6,636,436 |
| Net cash used in operating activities | **$ (53,485,598)** | $ (922,922) |

*See accompanying notes.*

**1. Summary of Significant Accounting Policies**

University Medical Center of Southern Nevada (the Hospital) is a component unit of, and owned and operated by, Clark County, Nevada (the County). The Hospital's Board of Trustees (the Board) consists of the seven members of the Clark County Board of Commissioners. As the Hospital is a component unit of the County, it is exempt from income tax and, accordingly, no provision for income taxes is required. A summary of the Hospital's significant accounting policies is as follows:

**Reporting Requirements of GASB No. 34**

The financial statements of the Hospital are prepared under accounting principles generally accepted in the United States applicable to state and local governmental entities on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. Substantially all revenues and expenses are subject to accrual.

The Hospital is subject to the accounting and reporting requirements of the Governmental Accounting Standards Board (GASB). Under the reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the Hospital is considered a proprietary fund of the County. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

As permitted under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Hospital has elected not to be bound to follow any FASB Statements and Interpretations issued after November 30, 1989.

**Cash Equivalents**

Cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at date of purchase, excluding amounts held under trust agreements.

## 1. Summary of Significant Accounting Policies (continued)

### Securities Lending Transactions

The Hospital and other County agencies are required to record their allocated shares of collateral assets and liabilities under securities lending transactions in the stand-alone financial statements of the Hospital and other County agencies as the County had made certain investment transactions covered under GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. GASB No. 28 requires that, when a government invests cash received as collateral for the transfer of existing investments to a broker-dealer or other entity, an asset be recognized for the subsequent investment and a corresponding liability be recognized for the obligation to return the cash to the broker-dealer or other entity. In addition, when an investment pool, such as the pool the Hospital and other County agencies participates in with the County, enters into these types of transactions, the amounts must be allocated to the individual funds of the pool. The County engages in such transactions with the pooled funds, including funds pooled by the Hospital and other County agencies. Accordingly the Hospital reports its proportionate shares of collateral assets held and liabilities under secured lending transactions in the financial statements of the Hospital in restricted assets and securities lending liabilities, respectively.

### Restricted Assets

Restricted assets include the Hospital's proportionate share of collateral assets held under securities lending transactions and those whose purpose was limited by the donor.

### Inventories

Inventories of supplies, medications, and food are carried at the lower of cost (generally determined on the first-in, first-out method) or market.

### Capital Assets

Capital assets are carried at cost or, if donated, at estimated fair value at the date of donation. The dollar threshold to capitalize assets is $3,000. Depreciation and amortization are computed using the straight-line method over the estimated service lives of the respective assets. Outlays for improvements and betterments are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. The cost of property retired and related accumulated depreciation is removed from the accounts, and any gain or loss recognized as a component of depreciation and amortization expense.

**1. Summary of Significant Accounting Policies (continued)**

**Deferred Bond and Debt Issue Costs**

Deferred bond and debt issue costs are amortized over a period of five to 21 years based upon the term of the related bonds using a method that approximates the effective interest rate method.

**Self-Insured Liability**

The self-insured liability represents the provision for estimated self-insured medical malpractice claims as well as workers' compensation claims. The provision includes estimates of the ultimate costs for both reported claims and claims incurred but not reported based on the recommendations of an independent actuary.

**Statement of Revenues, Expenses, and Changes in Net Assets**

All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the statements of revenues, expenses and changes in net assets. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or investment income. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Hospital's policy to use restricted net assets to satisfy those expenses to the extent such are available and then to use unrestricted net assets.

**Net Patient Revenues**

The Hospital provides care to all patients who meet certain criteria under its charity care policy and indigent patients, and community services without charge or at amounts less than established rates or actual costs. A patient is classified as a charity patient by reference to certain policies established by the Hospital as to the ability of the patient to pay. Partial payments to which the Hospital is entitled from public assistance and other programs on behalf of patients who meet the charity care policy of the Hospital are reported as net patient service revenue. Because the Hospital does not pursue collection of amounts predetermined to qualify as charity care, these amounts are not recorded as revenue. Charges forgone based upon established rates for services provided to charity care and indigent patients, and for educational and selected community service programs amounted to approximately $371,745,000 in 2007 and $193,465,000 in 2006.

Net patient revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Adjustments are accrued on an estimated basis in the period the related services are rendered and estimates are retroactive revised in future periods, as necessary, including where final settlements are determined.

**1. Summary of Significant Accounting Policies (continued)**

As part of the Hospital's mission to serve the community, the Hospital provides care to patients even though they may lack adequate insurance or may participate in programs that do not pay established rates. The Hospital regularly reviews accounts and contracts and provides appropriate contractual adjustments and allowances for uncollectible accounts and charity care.

The approximate percentage of gross patient revenues by major payor group for the years ended June 30:

| | 2007 | 2006 |
|---|---|---|
| Medicare | **19 %** | 20 % |
| Medicaid, Clark County, Self-pay | **47** | 48 |
| Commercial, HMO, PPO | **27** | 25 |
| Other | **7** | 7 |
| Total | **100 %** | 100 % |

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting estimates that are subject to material change in the next fiscal year include contractual adjustments, allowances for uncollectible accounts, and estimates of self-insurance reserves.

**Reclassifications**

Certain minor reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

**2. Cash, Cash Equivalents, and Investments**

Substantially all cash (including cash equivalents) and investments of the Hospital are under control of the Treasurer of Clark County, Nevada (the County Treasurer). The majority of all cash and investments of the Hospital are included in the investment pool of the County Treasurer. As of June 30, 2007, these amounts are broken down as follows:

| | | |
|---|---|---|
| Clark County investment pool | $ | **30,959,007** |
| Cash on hand | | **12,700** |
| Collateral on loaned securities | | **10,204,382** |
| Total cash and investments | $ | **41,176,089** |

**2. Cash, Cash Equivalents, and Investments (continued)**

The County Treasurer invests monies held both by individual funds and through a pooling of monies. The pooled monies, referred to as the investment pool, are invested as a whole and not as a combination of monies from each fund belonging to the pool. In this manner, the County Treasurer is able to invest the monies at a higher interest rate for a longer period of time. Interest is apportioned monthly to each fund in the pool based on the average daily cash balance of the fund for the month in which the investments mature.

According to Nevada statutes, County monies must be deposited with federally insured banks and savings and loan associations within the County. The County Treasurer is authorized to use demand accounts, time accounts, and certificates of deposit.

Nevada statutes do not specifically require collateral for demand deposits, but do specify that collateral for time deposits may be of the same type as those described for permissible investments under Nevada statues. Permissible investments are similar to allowable County investments described below except that some permissible investments are longer term and include securities issued by municipalities outside Nevada.

Due to the nature of the investment pool, it is not possible to separately identify any specific investment as being that of the Hospital. Instead, the Hospital owns a proportionate share of each investment, based on the Hospital's participation percentage in the investment pool. As of June 30, 2007, the $30,959,007 of Hospital investments held in the investment pool is categorized as follows:

| Investment Type | Percentage of Investment Type to the Total Pool | Duration in Years |
|---|---|---|
| U.S. Agencies | 64.5% | 2.33 |
| U.S. Treasury Obligations | 15.6% | 1.70 |
| Commercial Paper | 10.6% | 0.18 |
| State Investment Pool | 2.9% | 0.00 |
| Corporate Notes | 2.9% | 3.04 |
| Negotiable CDs | 2.0% | 0.26 |
| Money Market Mutual Funds | 1.4% | 0.00 |
| | 100.0% | |
| Average Portfolio Duration | | 1.88 |

**2. Cash, Cash Equivalents, and Investments (continued)**

**Credit Risk**

The County's investment policy applies a prudent-person rule, which is: "In investing the County's monies, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The County's investments in U.S. agency obligations were rated AAA by Standard and Poor's and Fitch Ratings, and AAA by Moody's Investors Service. The County investments in U.S. Treasury obligations carry no measurable credit risk because they are backed by U.S. government. The County's investment in commercial paper is rated A-1 by Moody's Investor Service, Standard and Poor's as P-1, and Fitch Investors Service as F-1. The Hospital's money market mutual funds investments are made only with those funds rated as AAA or its equivalent by a nationally recognized rating service and invested only in securities issued by the U.S. federal government, U.S. agencies, or in repurchase agreements fully collateralized by such securities. The State Investment Pool does not have a credit rating.

**Concentration of Credit Risk**

To limit exposure to concentrations of credit risk, the County's investment policy limits investment in bankers' acceptance notes, commercial paper, corporate notes and bonds, collateralized mortgage obligations, and asset-backed securities to 20% of the entire portfolio on the day of purchase. At June 30, 2007, the following investments exceeded 5% of the Clark County Investment Pool:

| | |
|---|---|
| Federal Home Loan Banks (FHLB) | 30.89% |
| Federal Home Loan Mortgage Corporation (FHLMC) | 15.75 |
| United States Treasury Notes | 15.64 |
| Federal National Mortgage Association (FNMA) | 12.17 |
| Federal Farm Credit Bank (FFCB) | 5.73 |

**Interest Rate Risk**

Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates (referred to as interest rate risk) by limiting the weighted average duration of its investment portfolio to less than 2.5 years. Accordingly, the County's investment policy limits investment portfolio maturities for certain investment instruments as follows: U.S. Treasury and U.S. agencies to less than ten years; bankers' acceptances to 180 days; commercial paper to 270 days; certificates of deposit to one year; corporate notes and bonds to five years; and repurchase agreements to 90 days.

**2. Cash, Cash Equivalents, and Investments (continued)**

**Interest Rate Sensitivity**

Callable securities are directly affected by the movement of interest rates. Callable securities allow the issuer to redeem or call a security before maturity, generally on coupon dates.

Step-Up securities have fixed rate coupons for a specific time interval that will step-up a predetermined number of basis points at scheduled coupon or other reset dates. These securities are callable one time or on their coupon dates.

Fix-to-Floating Rate notes have fixed rate coupons for a specified period of time then a variable rate coupon for the remaining life of the security. The variable rate is generally based on three month LIBOR plus 125 basis points. In some cases, interest rate caps are reset higher annually. These securities are callable generally on their coupon dates.

CPI Floaters have a variable rate coupons based on the Consumer Price Index Year-over-Year index plus 114 basis points. This rate resets and pays a coupon monthly.

Range notes have fixed rate coupons based on three month LIBOR staying within a range for a time period, generally one year. If three month LIBOR is within the predetermined range for a specified time period, the coupon rate is set at a higher rate that steps at periodic intervals. If three month LIBOR is out of the predetermined range, the coupon rate is reset to a floor rate of 1%. These securities are also callable on their coupon dates.

At June 30, 2007, U.S. agency obligations represented 29% of total securities highly sensitive to changes in interest rates.

**Securities Lending Transactions**

Nevada Revised Statutes (NRS 355.178) and the County's investment policy permit the County Treasurer to participate in securities lending transactions, where the County's U.S. government securities are loaned to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The County's securities lending agent administers the securities lending program and receives cash or other securities equal to at least 102% of the fair value of the loaned securities plus accrued interest as collateral for securities of the type on loan at year-end. The collateral for the loans is maintained at 102%, and the value of the securities borrowed must be determined on a daily basis. At June 30, 2007, the County had no credit risk exposure to borrowers because the amount the County owed to borrowers exceeded the amounts the borrowers owed to the County. The contract with the securities lending agent requires it to indemnify the County for all losses relating to securities lending transactions. There were no losses resulting from borrower default during the period nor were there any recoveries of prior period losses.

**2. Cash, Cash Equivalents, and Investments (continued)**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the County's securities lending policy, $10,204,382 of Hospital collateral on loaned securities at June 30, 2007, was held by the counterparty that was acting as the County's agent in securities lending transactions.

There are no restrictions on the amount of securities that can be loaned. Either the County or the borrower can terminate all open securities loans on demand. Cash collateral is invested in accordance with the investment guidelines stated in NRS 355.178. The maturities of the investments made with cash collateral match the maturities of the securities loans.

The Hospital has recorded restricted investments related to securities lending transactions of $10,204,382 and $14,333,029 as of June 30, 2007 and 2006 respectively, with a corresponding securities lending liability, as of June 30, 2007 and 2006. These investments are categorized at June 30, 2007, as follows:

| Investments Loaned | Percentage of Investment Type to the Total Pool |
|---|---|
| U.S. Treasury obligations | 12.42% |
| U.S. agency obligations | 20.54 |
| | 32.96% |

| Investment Type of Collateral Held | Percentage of Investment Type to Total Collateral Held |
|---|---|
| Reverse repurchase agreements | 54.79% |
| Corporate notes | 28.86 |
| Certificates of deposit | 10.67 |
| Asset backed securities | 5.68 |
| | 100.00% |

## 3. Other Receivables, Net

A summary of other receivables, net at June 30 follows:

| | 2007 | 2006 |
|---|---|---|
| Third-party settlements | **$ 16,871,367** | $ 16,209,187 |
| Orion LLC receivable | | 815,760 |
| Clark County contribution receivable | **952,302** | |
| Other | **366,066** | 162,491 |
| | **$ 18,189,735** | $ 17,187,438 |

## 4. Internally Designated Assets

The Hospital's internally designated assets consist of the following as of June 30:

| | 2007 | 2006 |
|---|---|---|
| Self insurance funds | **$ 1,162,061** | $ 2,016,268 |
| Debt service funds | **10,341,460** | 9,892,374 |
| Capital acquisition funds | **15,830,879** | 32,525,676 |
| | **$ 27,334,400** | $ 44,434,318 |

## 5. Related Party Transactions

The Hospital receives payments from the County under a contractual arrangement to provide care for qualifying indigent and emergency care. For the years ended June 30, 2007 and 2006, the Hospital received $62,159,511 and $76,467,550 for such care, respectively. Amounts received for qualifying indigent and emergency care are included in net patient revenues in the fiscal years the services are rendered.

Prior to September 2006, the Hospital executed a $2,000,000 line of credit with the County for the purpose of funding payroll, which, when used, must be repaid in full upon receipt of the next monthly state of Nevada disproportionate share hospital payment. The amount outstanding related to this line of credit as of June 30, 2007 and 2006 was $1,000,000 and $2,000,000, respectively. The amount is reflected in the current portion of the due to related party in the accompanying balance sheets as well as additional current invoices owed to the County in the next year.

**5. Related Party Transactions (continued)**

The County charges for legal and financial services provided to the Hospital. The Hospital recorded costs of $3,564,710 and $4,417,462 for these services during 2007 and 2006, respectively. At June 30, 2007 and 2006, non-interest bearing amounts due to the County for such services were $19,511,795 and $21,593,938, respectively. At June 30, 2007 and 2006, the County agreed not to demand payment for these services prior to July 1, 2009 and 2008, respectively, and accordingly, this amount owed to the County has been classified as a long-term liability in the accompanying balance sheets. In June 2007, the County forgave the charge for services for both 2001 and 2002 totaling $5,646,853. This amount is reflected as contributions from Clark County in 2007. A summary of changes in due to related party balances during 2007 and 2006 follows:

| 2007 | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| **Current portion** | | | | |
| Clark County Interfund | $ 2,000,000 | $ 9,000,000 | $(10,000,000) | $ 1,000,000 |
| Clark County- Worker's Compensation | 2,928,659 | 5,502,388 | (4,510,859) | 3,920,187 |
| Clark County Tr- Auto | 31,209 | 135,010 | (159,551) | 6,668 |
| Clark County Enterprise | 19,480 | 90,212 | (99,956) | 9,736 |
| Clark County Advertising TV | | 140,000 | | 140,000 |
| | 4,979,348 | 14,867,609 | (14,770,366) | 5,076,591 |
| **Long-term Portion** | | | | |
| Clark County Overhead | 21,593,938 | 4,007,739 | (6,089,882) | 19,511,795 |
| | $ 26,573,286 | $ 18,875,348 | $(20,860,248) | $24,588,386 |

**5. Related Party Transactions (continued)**

| 2006 | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Current portion | | | | |
| Clark County Interfund | $ 2,000,000 | $ 20,000,000 | $(20,000,000) | $ 2,000,000 |
| Clark County- Worker's Compensation | 633,053 | 2,695,606 | (400,000) | 2,928,659 |
| Clark County Tr- Auto | 47,416 | 33,776 | (49,983) | 31,209 |
| Clark County Enterprise | 11,491 | 19,480 | (11,491) | 19,480 |
| Clark County Interest | 9,353 | | (9,353) | |
| Clark County Health District | 285 | | (285) | |
| | 2,701,598 | 22,748,862 | (20,471,112) | 4,979,348 |
| Long-term Portion | | | | |
| Clark County Overhead | 17,235,252 | 4,358,686 | | 21,593,938 |
| | $ 19,936,850 | $ 27,107,548 | $(20,471,112) | $26,573,286 |

**6. Medicare and Medicaid Programs**

The Hospital renders services to patients under contractual arrangements with the U.S. Federal Medicare and the State of Nevada Medicaid programs. Revenues received under the Medicare program are subject to audit and retroactive adjustment. Medicare cost reports have been finalized through the 2005 fiscal year. Provisions for estimated retroactive adjustments for cost report years that have not been finalized have been provided, where applicable. During 2007 and 2006, approximately $662,000 and $2,246,000, respectively, of retroactive adjustments for prior years were reported as an increase to net patient revenues.

The State of Nevada Medicaid program provides for additional funding for indigent and Medicaid care through a disproportionate share program. Funding for the disproportionate share program is generated through intergovernmental transfers and matching funds from the federal government. The amount of gross disproportionate share payments received by the Hospital was $70,675,093 and $69,483,606 in fiscal 2007 and 2006, respectively.

The State of Nevada Medicaid program revised its plan effective January 1, 2003, to allow for supplemental Medicaid payments as provided under federal regulations referred to as the Upper Payment Limit (UPL). The amendment to the State of Nevada Medicaid program was approved by its Center for Medicare and Medicaid Services on September 22, 2002, allowing the State to reimburse county-owned hospitals 100% of the amount Medicare would pay in the aggregate for the services reimbursed by the Medicaid program. These funds are distributed prospectively on a quarterly basis. Funding for the UPL program is generated through intergovernmental transfers from Clark County and matching funds from the federal government. The amount of gross UPL payments received by the Hospital was $28,664,080 and $27,088,142 in fiscal 2007 and 2006, respectively.

## 6. Medicare and Medicaid Programs (continued)

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental program participation, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

## 7. Capital Assets

The Hospital's investment in capital assets consists of the following as of June 30:

| 2007 | Beginning Balance | Additions/ Transfers | Retirements/ Transfers | Ending Balance |
|---|---|---|---|---|
| **Land** | $ 10,573,113 | | | $ 10,573,113 |
| **Land improvements** | 5,650,266 | | | 5,650,266 |
| **Buildings and building improvements** | 115,580,283 | $ 14,848,868 | $ 35,226,369 | 165,655,520 |
| **Equipment** | 85,703,917 | 9,457,111 | | 95,161,028 |
| **Furnitures and fixtures** | | 975,394 | | 975,394 |
| **Total at historical cost** | 217,507,579 | 25,281,373 | 35,226,369 | 278,015,321 |
| | | | | |
| **Less: Accumulated depreciation and amortization** | | | | |
| **Land improvements** | (1,102,026) | (210,135) | | (1,312,161) |
| **Buildings and building improvements** | (53,765,209) | (3,900,627) | | (57,665,836) |
| **Equipment** | (54,381,927) | (8,676,158) | | (63,058,085) |
| **Furnitures and fixtures** | - | (44,620) | | (44,620) |
| | (109,249,162) | (12,831,540) | | (122,080,702) |
| **Construction-in-progress** | 37,442,416 | 3,381,337 | (35,421,201) | 5,402,552 |
| **Property, plant, and equipment, net** | $ 145,700,833 | $ 15,831,170 | $ (194,832) | $ 161,337,171 |

## 7. Capital Assets (continued)

| 2006 | Beginning Balance | Additions/ Transfers | Retirements/ Transfers | Ending Balance |
|---|---|---|---|---|
| Land | $ 10,221,047 | $ 352,066 | | $ 10,573,113 |
| Land improvements | 4,685,508 | 964,758 | | 5,650,266 |
| Buildings and building improvements | 114,801,178 | 779,105 | | 115,580,283 |
| Equipment | 82,963,162 | 6,297,077 | $ (3,556,322) | 85,703,917 |
| Total at historical cost | 212,670,895 | 8,393,006 | (3,556,322) | 217,507,579 |
| | | | | |
| Less: Accumulated depreciation and amortization | | | | |
| Land improvements | (936,570) | (165,456) | | (1,102,026) |
| Buildings and building improvements | (49,163,552) | (4,601,657) | | (53,765,209) |
| Equipment | (45,614,293) | (8,757,660) | (9,974) | (54,381,927) |
| | (95,714,415) | (13,524,773) | (9,974) | (109,249,162) |
| Construction-in-progress | 11,296,720 | 27,575,120 | (1,429,424) | 37,442,416 |
| Property, plant, and equipment, net | $ 128,253,200 | $ 22,443,353 | $ (4,995,720) | $ 145,700,833 |

**8. Long-Term Debt**

The Hospital's long-term debt consists of the following as of June 30:

| | 2007 | 2006 |
|---|---|---|
| Clark County, Nevada General Obligation (Limited Tax) Hospital Bonds, Series 2000 | **$ 8,650,000** | $ 8,750,000 |
| Clark County, Nevada General Obligation (Limited Tax) Hospital Improvement and Refunding (Multiple Series) Bonds, Series 2003 (Net of unamortized deferred refunding loss of $484,183 in 2006) | **13,925,229** | 32,860,817 |
| Clark County, Nevada General Obligation (Limited Tax) Hospital Refunding Bonds (Additionally Secured by Pledged Revenues), Series 2004 (Net of unamortized deferred refunding loss of $82,755 in 2007 and $113,788 in 2006) | **4,807,245** | 6,396,212 |
| Clark County, Nevada General Obligation (Limited Tax) Hospital Refunding Bonds (Additionally Secured with Pledged Gross Revenues), Series 2005 (Net of unamortized deferred refunding loss of $4,023,027 in 2007 and $4,340,634 in 2006) | **44,016,973** | 43,849,366 |
| Clark County, Nevada General Obligation (Limited Tax) Hospital Refunding Bonds (Additionally Secured with Pledged Gross Revenues), Series 2007 (Net of unamortized deferred refunding loss of $722,301 in 2007) | **17,372,699** | |
| LaSalle Bank Note (5th, 3rd), collateralized by equipment 7 year note at 4.56% interest, matures June 2011 | **4,835,133** | 5,937,591 |
| | **93,607,279** | 97,793,986 |
| Plus - Unamortized premium on Series 2003, 2004, and 2005 Bonds | **3,793,409** | 4,561,163 |
| Less - Current maturities (net of unamortized deferred refunding loss of $475,704 and $524,495) | **(5,253,795)** | (5,022,458) |
| | **$ 92,146,893** | $ 97,332,691 |

**8. Long-Term Debt (continued)**

On March 1, 2000, Clark County, Nevada issued $56,825,000 in General Obligation (Limited Tax) Hospital Bonds (the 2000 Bonds) with interest rates of 5.0% to 5.75%, which are collateralized with pledged gross revenues. On July 28, 2005, $47,875,000 of the principal amount was refunded by the 2005 bonds leaving $8,750,000 as the outstanding principal balance. The 2000 Bonds mature semiannually on March 1st and September 1st. Interest is also due semiannually on those dates. The 2000 Bonds mature in 2011.

On November 1, 2003, Clark County, Nevada issued $36,765,000 in General Obligation (Limited Tax) Hospital Improvement and Refunding (Multiple Series) Bonds (the 2003 Bonds) with interest rates of 2.25% to 5.0%, which are collateralized with pledged gross revenues. Principle and interest for the unrefunded 2003 Bonds are due semiannually on March 1st and September 1st. The 2003 Bonds mature in 2024.

On May 1, 2004, Clark County, Nevada issued $8,085,000 in General Obligation (Limited Tax) Hospital Refunding Bonds (the 2004 Bonds) with interest rates of 2.25% to 3.5%, which are collateralized with pledged gross revenues. Principle and interest for the 2004 Bonds are due semiannually on March 1st and September 1st. The 2004 Bonds mature in 2010.

On July 28, 2005, Clark County, Nevada issued $48,390,000 in General Obligation (Limited Tax) Hospital Refunding Bonds (the 2005 Bonds) with interest rates of 4.0% to 5.0%, which are collateralized with pledged gross revenues. The proceeds of the bonds were used to: (i) refund $47,875,000 aggregate principal amount of the County's General Obligation (Limited Tax) Hospital Bonds, Series 2000; and (ii) pay the costs of issuing the 2005 Bonds. As a result, the previously outstanding refunded bonds are considered to be defeased and the liabilities for those bonds have been extinguished with the exception of $8,750,000 left outstanding at June 30, 2006. The aggregate difference in debt service between the refunded debt and the refunding debt was $3,867,842. The economic gain on the transaction was $2,883,595. The 2005 Bonds were sold at a premium of $4,338,966. In addition, the issuance of the 2005 Bonds resulted in a loss on defeasance of $4,738,038. Both the loss on defeasance and the premium are being amortized over the life of the new bonds. Principle and interest for the 2005 Bonds are due semiannually on March 1st and September 1st. The 2005 Bonds mature in 2020.

**8. Long-Term Debt (continued)**

On May 1, 2007, Clark County, Nevada issued $18,095,000 in General Obligation (Limited Tax) Hospital Refunding Bonds (the 2007 Bonds) with interest rate of 4.19%, which are collateralized with pledged gross revenues. The proceeds of the bonds were used to: (i) refund $17,205,000 aggregate principal amount of the County's General Obligation (Limited Tax) Hospital Bonds, Series 2003; and (ii) pay the cost of issuing the 2007 Bonds. As a result, the previously outstanding refunded bonds are considered to be defeased and the liabilities for those bonds have been extinguished with the exception of $13,925,229 left outstanding at June 30, 2007. The aggregate difference in debt service between the refunded debt and the refunding debt was $892,899. The economic gain on the transaction was $688,931. The issuance of the 2007 Bonds resulted in a deferred loss of $726,024, which will be amortized over the life of the new bonds. Principle and interest for the 2007 Bonds are due semiannually on March 1st and September 1st. The 2007 Bonds mature in 2023.

On May 20, 2004, Clark County, Nevada issued $8,079,363 in General Obligation (Limited Tax) Medium-Term Note (the LaSalle Note) with an interest rate of 4.56%. The LaSalle Note is collateralized with equipment. Principle and interest are due monthly on the 20th. The LaSalle Note matures in 2011.

The Hospital's general obligation bond ordinances contain the usual and customary covenants associated with such bonds. Hospital management believes it is in compliance with all such covenants.

A summary of changes in long-term debt during 2007 and 2006 follows:

| 2007 | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| **Hospital bonds** | **$ 96,795,000** | **$18,095,000** | **$(21,125,000)** | **$93,765,000** |
| **Long-term financing** | **5,937,592** | | **(1,102,458)** | **4,835,133** |
| | **102,732,592** | **18,095,000** | **(22,227,458)** | **98,600,133** |
| **Less deferred refunding loss** | **(4,938,606)** | **(726,024)** | **671,776** | **(4,992,855)** |
| **Total bonds and long-term financing** | **$ 97,793,986** | **$17,368,976** | **$(21,555,683)** | **$93,607,279** |

**8. Long-Term Debt (continued)**

| **2006** | **Beginning Balance** | **Additions** | **Reductions** | **Ending Balance** |
|---|---|---|---|---|
| Hospital bonds | $ 99,830,000 | $ 48,390,000 | $ (51,425,000) | $ 96,795,000 |
| Long-term financing | 7,983,339 | | (2,045,747) | 5,937,592 |
| | 107,813,339 | 48,390,000 | (53,470,747) | 102,732,592 |
| Less deferred refunding loss | (725,064) | (4,738,037) | 524,495 | (4,938,606) |
| Total bonds and long-term financing | $107,088,275 | $ 43,651,963 | $ (52,946,252) | $ 97,793,986 |

Principal and interest payments required to maturity on long-term debt at June 30, 2007 follow:

| **Year ended June 30** | **Principal** | **Interest** |
|---|---|---|
| 2008 | $ **5,253,795** | $ 4,316,065 |
| 2009 | **5,262,521** | 4,324,260 |
| 2010 | **7,288,750** | 4,124,219 |
| 2011 | **5,800,067** | 3,833,922 |
| 2012 | **4,810,000** | 3,574,815 |
| 2013-2017 | **26,270,000** | 14,204,374 |
| 2018-2022 | **30,635,000** | 6,991,133 |
| 2023-2024 | **13,280,000** | 597,378 |
| | **98,600,133** | 41,966,165 |
| Less: unamortized deferred refunding loss | **(4,992,854)** | |
| Plus: unamortized bond premium | **3,793,409** | |
| Total | $ **97,400,688** | $41,966,165 |

A summary of interest expense and interest income for the years ended June 30 follows:

| | 2007 | 2006 |
|---|---|---|
| Interest expense: | | |
| Capitalized | **$ 1,754,972** | $ 3,669,533 |
| Charged to operations | **3,895,463** | 1,052,357 |
| Total | **$ 5,650,435** | $ 4,721,890 |
| | | |
| Interest income: | | |
| Capitalized | **$ 426,909** | $ 1,941,803 |
| Credited to operations | **2,345,868** | 1,136,159 |
| Total | **$ 2,772,777** | $ 3,077,962 |

**9. Liability Insurance**

The Hospital is exposed to various risks of loss related to theft of, damage to and destruction of assets, errors and omissions, injuries to employees and patients, and natural disasters. These risks are covered by the Hospital's Self-Insured Professional and General Liability Insurance Policy, commercial insurance purchased from independent third parties, and Clark County's Worker's Compensation program.

**9. Liability Insurance (continued)**

On January 20, 1987, the Board approved self-insured malpractice and general liability and workers' compensation insurance programs. In lieu of maintaining insurance coverage, the Board of Trustees created the malpractice and general liability fund and the workers' compensation fund. The Hospital has accrued, at an undiscounted rate, a liability for estimated future settlements and claims losses on medical malpractice, general liability, and workers' compensation using its best estimate of these losses in accordance with actuarially determined amounts. Included in internally designated restricted assets, the Hospital has funded $1,162,061 and $2,016,268 at June 30, 2007 and 2006, of the accrued liability of $7,473,000 and $7,296,566, respectively in its malpractice and general liability fund. In the opinion of management, there are no claims or lawsuits asserted or unasserted that would not be adequately covered by insurance and/or the malpractice and general liability accrual.

A summary of changes in self-insurance liability during 2007 and 2006 follows:

| **2007** | **Beginning Balance** | **Additions** | **Reductions** | **Ending Balance** |
|---|---|---|---|---|
| **Current portion** | | | | |
| **Self-insured malpractice** | **$ 1,023,275** | **$ 261,060** | | **$ 1,284,335** |
| **Self-insured workers' compensation** | **1,356,098** | **1,594,528** | **$ (1,594,528)** | **1,356,098** |
| | **2,379,373** | **1,855,588** | **(1,594,528)** | **2,640,433** |
| **Long-term portion** | | | | |
| **Self-insured malpractice** | **3,803,291** | **1,729,242** | **(1,813,868)** | **3,718,665** |
| **Self-insured workers' compensation** | **1,113,902** | | | **1,113,902** |
| | **4,917,193** | **1,729,242** | **(1,813,868)** | **4,832,567** |
| | **$ 7,296,566** | **$ 3,584,830** | **$ (3,408,396)** | **$ 7,473,000** |

| **2006** | **Beginning Balance** | **Additions** | **Reductions** | **Ending Balance** |
|---|---|---|---|---|
| Current portion | | | | |
| Self-insured malpractice | $ 1,389,773 | | $ (366,498) | $ 1,023,275 |
| Self-insured workers' compensation | 740,543 | $ 1,870,000 | (1,254,445) | 1,356,098 |
| | 2,130,316 | 1,870,000 | (1,620,943) | 2,379,373 |
| Long-term portion | | | | |
| Self-insured malpractice | 6,136,128 | | (2,332,837) | 3,803,291 |
| Self-insured workers' compensation | | 1,113,902 | | 1,113,902 |
| | 6,136,128 | 1,113,902 | (2,332,837) | 4,917,193 |
| | $ 8,266,444 | $ 2,983,902 | $(3,953,780) | $ 7,296,566 |

**10. Employee Benefit Plans**

**Retirement Plan**

Substantially all of the Hospital's employees are participants in a retirement plan (the Plan) that is part of the Public Employees' Retirement System (PERS) for public employees in the State of Nevada. The Plan was established on July 1, 1948, by the Nevada Legislature and is governed by the Public Employees' Retirement Board whose seven members are appointed by the Governor. All public employees who meet certain eligibility requirements participate in the Plan. The Plan is a cost sharing multiple-employer defined benefit plan of PERS.

The Hospital does not exercise any control over the Plan and Nevada Revised Statute 286.110 states, "Respective participating public employers are not liable for any obligation of the system." Benefits, as required by statute, are determined by the number of years of credited service at the time of retirement and the member's highest average compensation in any 36 consecutive months. Benefit payments to which participants may be entitled under the Plan include pension benefits, disability benefits, and death benefits.

Monthly benefit allowances for regular members are computed at 2.67% (2.5% prior to July 1, 2001) of average compensation (average of 36 consecutive months of highest compensation) for each credited year of service prior to retirement up to a maximum of 90% of the average compensation for employees entering the system prior to July 1, 1985, and 75% for those entering after that date. The Plan offers several alternatives to the unmodified service retirement allowance which, in general, allows the retired employee to accept a reduced service retirement allowance payable monthly during the employee's life and various optional monthly payments to a named beneficiary after the employee's death. Regular members are eligible for retirement benefits at age 65 with five years of service, at age 60 with 10 years of service or at any age with 30 years of service.

Nevada Revised Statute 286.410 establishes contribution rates. This statute provides for yearly increases of up to 1% until such time as the actuarially determined unfunded liability of the Plan is reduced to zero. The Hospital is obligated to contribute all amounts due under the Plan. The contribution rate, based on covered payroll, for the years ended June 30, 2007, 2006 and 2005 were 20.50%, 19.75% and 20.25%, respectively.

The Hospital's contributions to the Plan for the years ended June 30, 2007, 2006 and 2005 were $38,347,071, $35,858,626, and $35,446,301, respectively, and were equal to the required contributions for each fiscal year. At June 30, 2007 and 2006, accrued expenses include $6,755,302, and $5,404,354, respectively, due to PERS.

**10. Employee Benefit Plans (continued)**

An annual report containing financial statements and required information for the Plan may be obtained by writing to PERS, 693 W. Nye Lane, Carson City, Nevada 89703-1599 or by calling (775) 687-4200.

**Deferred Compensation Plan**

The Hospital offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Hospital does not exercise any control over the assets of the deferred compensation plan. The plan, available to all Hospital employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**11. Charity Care**

The Hospital maintains records to identify and monitor the ability of patients to pay for services rendered. These records are utilized to determine the amount of estimated charges foregone for services and supplies furnished for charity care, the estimated costs of these services and supplies, and equivalent service statistics. The following information estimates the level of charity care provided during the years ended June 30:

| | **2007** | **2006** |
|---|---|---|
| Charges foregone, based on established rates | **$371,745,155** | $193,465,151 |
| Costs and expenses incurred to provide charity care | **$110,668,533** | $ 61,367,146 |
| Equivalent percentage of cost to provide charity care to all patients served | **20.4%** | 12.1% |

**12. Commitments and Contingencies**

**Leases**

The Hospital has operating leases primarily consisting of real property leases for off-campus outpatient clinic and business office facilities as well as medical and office equipment used in Hospital operations. Certain property leases contain initial and renewal terms providing for predetermined inflation factors for fixed rents. In addition, several property leases require the Hospital to pay other occupancy costs such as common area maintenance and utilities.

## 12. Commitments and Contingencies (continued)

Subject to the following paragraph, minimum rental commitments as of June 30, 2007, for operating leases for property and equipment are as follows:

| Year ended June 30 | Lease Obligation |
|---|---|
| 2008 | $ 5,270,808 |
| 2009 | 3,018,303 |
| 2010 | 2,685,445 |
| 2011 | 1,953,504 |
| 2012 | 1,876,886 |
| Total | $ 14,804,947 |

In the Hospital's lease agreement, there is a "fiscal fund out clause." Under the "fiscal fund out clause," the respective agreement shall terminate and the Hospital's obligations under it shall be extinguished at the end of any of the Hospital's fiscal years in which the Hospital's governing body fails to appropriate monies for the ensuing fiscal year sufficient for the payment of all amounts which could then become due under the agreement. The Hospital agrees that the "fiscal fund out clause" shall not be utilized as a subterfuge or in a discriminatory fashion as it relates to agreements. In the event this section is invoked, the agreement will expire on June 30 of the current fiscal year. Termination under this section shall not relieve the Hospital of its obligations incurred through June 30 of the fiscal year for which monies were appropriated.

Total rental expense under all leases amounted to $7,386,155 and $8,050,573 in fiscal 2007 and 2006, respectively.

### Litigation

Beginning July 1, 2005, the Hospital contracted with ACS to provide its revenue cycle functions. In February 2007, the Hospital discontinued the services of ACS and paid them what management considered a fair settlement, including undisputed amounts. ACS returned the check and initiated legal action against the Hospital. The Hospital recorded a liability to ACS for the amount offered in settlement, and management is of the opinion that the outcome of this matter will not have a material adverse effect on the Hospital's financial statements.

The Hospital does not accrue for estimated future legal and defense costs, if any, to be incurred in connection with outstanding or threatened litigation and other disputed matters but rather, records such as period costs when services are rendered.

**13. Subsequent Event**

On November 29, 2007, Clark County, Nevada issued $7,000,000 General Obligation (Limited Tax) Medium-Term Hospital Bonds with interest rates of 3.89% which are collateralized with pledged gross revenues. The purpose of the bond issue was to finance costs of acquiring and improving hospital equipment. The 2007 Medium-Term Bonds have a maturity date of 2018.

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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees of the University Medical Center of Southern Nevada
Las Vegas, Nevada

We have audited the basic financial statements of the University Medical Center of Southern Nevada (the Hospital), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting.** In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted the following matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies.

### *Physical Inventory Count Process*

During our observations of the inventory counting process the following, which taken together constitute a significant deficiency, were noted:

1. In most departments, the count was conducted by one person instead of teams of two as required by the prescribed procedures.
2. In several departments inventory items were received and dispensed throughout the count. An accurate method of accounting properly for such inventory movement was not consistently applied.
3. In many cases, final count documents with correct quantities, prices and extensions were not made available to an auditor timely.
4. A year-end inventory count was not performed for the Engineering department.
5. The inventory count in the Special Procedures department was scheduled to start at 7:00 a.m., but the count did not start until 8:20 a.m. and without the department supervisor who was scheduled to arrive at 1:30 p.m. The supervisor later called in ill and did not work that day. Without adequate supervision, the count was performed in a rather disorganized manner and many counting errors were observed by the auditors. Nevertheless, we believe most, it not all, of these errors were corrected when brought to the attention of staff by our auditors.
6. In some departments, the count team members did not sign the count documents.
7. At the Lied Pharmacy, the supervisor was also a member of one of the count teams and, consequently, was not able to supervise the overall counting process properly.
8. Surgery department:
   a. We were informed that the surgery inventory counts were scheduled to begin at 6:00 a.m. on Friday, June 29, 2007. However, on the afternoon of June 28, 2007, we discovered that the counts had already started earlier that day.
   b. Errors discovered by our auditors were not always appropriately corrected by Hospital staff.



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We recommend that the year-end inventory planning be formalized and clearly communicated to the counting staff and that the counting process be more closely supervised.

***Journal Entry Approval***

Five of the 65 journal entries selected for testing lacked evidence of proper pre-posting approval. Four of these five entries were recorded in the Hospital's accounting system prior to a mid-year change in the approval process. Consequently, remedial action has already been taken by management to correct this significant deficiency.

***Check Disbursement Approval***

Nine of the 165 disbursements tested lacked evidence of proper pre-issuance approval. Also, for one disbursement the payment amount did not agree with the vendor invoice. We recommend that greater effort be made to assure that all invoices are properly approved for payment and that greater care be taken to avoid errors in the processing of such payments.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above, and the above significant deficiencies, in the aggregate, do not constitute a material weakness.

**Compliance and other matters.** As part of obtaining reasonable assurance about whether the Hospital's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management of the Hospital, Clark County, Nevada, and federal awarding agencies and pass through entities. However, this report is a matter of public record, and its distribution is not limited.

Piercy Bowler Taylor & Kern

December 10, 2007